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INTERACTIVE TRAVEL SERVICES ASSOCIATION

October 23, 2000

U.S. Department of Transportation
Room PL-401
400 Seventh Street, S.W.
Washington, DC 20590

OST-97-2881-179
OST-97-3014-46
OST-98-4775-91

RE: Regulation of Computer Reservation Systems
Docket Numbers OST-97-2881, OST-97-3014, and OST-98-4775
Reply Comments of the Interactive Travel Services Association

Dear Sir or Madam:

The Interactive Travel Services Association (ITSA), the trade association for the online travel service industry, hereby submits its **reply** comments regarding the Department's re-examination of rules governing Computer Reservations Systems (CRSs). ITSA submitted supplemental comments on September 22, 2000. As the mission of ITSA is to promote consumer choice, access, confidence, protection, and information in the rapidly growing world of online travel, ITSA is concerned about the threats Orbitz poses to e-competition and consumer choice, and particularly troubled by Orbitz's disingenuous and indefensible declarations in its supplemental comments to the Department of Transportation.

Orbitz – The Online Travel Industry's All Access Web site?

ITSA and many other commentators have expressed serious concern about the impact on competition from the implicit and explicit agreements that provide Orbitz with *de facto* exclusive access to discount Internet airfares. It is important to recognize that owners and executives of Orbitz have made contradictory statements as to how the company will handle access to airfares. Donald Carty, the Chief Executive Officer of American Airlines, told the Senate Subcommittee on Antitrust, Business Rights and Competition on May 2, 2000 that some of the offerings made on Orbitz would not be made on other sites. According to Mr. Carty, "It is envisaged by this particular site that some offerings will be made on this site that won't be made on other sites, at least by the equity owners of the airlines." In a statement made to *Internet World* on June 1, 2000, Orbitz's Chief Technology Officer, Alex Zoghlin stated, "Everyone goes through the same four or five computer reservation systems that all have the same information. These are all publicly available fares. We're getting the same stuff as everyone else, **except that the special fares that are on the Web sites of particular airlines, we are putting in one place to book.**"

In its supplemental comments to DOT (dated September 22, 2000) however, Orbitz wrote in regard to CRSs: “any fare offered by a participating carrier to the general public through any distribution channel must also be made available to the public through Orbitz.” This forced MFN participation severely diminishes the willingness of airlines to offer these very low fares to other distribution channels, other than their own Web sites, because, if they did, a large and inefficient amount of inventory will be sold at these fares. Just as, currently, airlines offer special fares available only on their own Web sites.

In addition, Orbitz states, “Moreover, participating carriers are free to offer, through any other distribution channel, any fare offered through Orbitz.” Unfortunately, the agreement that non-equity owner airlines sign with Orbitz provides strong financial incentives for participating carriers to provide their very lowest fares exclusively to Orbitz. Constructing a single joint venture that provides exclusive discounts threatens to wipe out the vast majority of online travel agency competitors who have led customer service innovations and helped consumers obtain less costly tickets and fares.

Orbitz – The Vigorous Innovator?

The notion proposed by Orbitz that there is “stagnant innovation” within the online travel industry is as mistaken as it is ludicrous. The online travel market is huge – last year in the U.S., 11 million consumers bought travel online, up 83 percent over 1998. By 2001, sales are expected to escalate to \$20.2 billion, making the Internet travel industry one of the fastest growing and largest e-commerce categories. Innovation has been key to this growth. The online travel industry has continually updated its technology and provided consumers with more choices, lower prices, and better services. Online travel companies bring greater and more diverse choices for consumers and serve as honest brokers with airlines and other travel service suppliers. The underlying theme of innovation is to bring new methods and devices to the table; should Orbitz be allowed to launch as currently structured, it will monopolize the industry and stifle innovation.

Orbitz – The Enthusiastic Competitor?

Orbitz by its very design does not promote competition. Rather, is specifically structured to undermine an expanding e-commerce market. Orbitz is an attempt by the major airlines to limit access to the complete, unbiased information needed to purchase low-cost air travel. As competition declines, consumers will be driven to one Web site and once competition is reduced, held hostage to price hikes and poor service. Orbitz does what the Boston Consulting Group’s senior consultants espouse in their book *Blown to Bits*. In the face of growing competition from online navigators, in this case, online travel Web sites, the authors recommend that the established suppliers, such as the major airlines, simply refuse to deal with the navigators – independent online travel services companies. The authors write, “Suppliers and retailers are the source of the information on product features, price, and availability that the new navigators need. So simply refuse to make that information available.” (*Blown to Bits*, 139). This is hardly a prescription for a vigorously competitive marketplace for consumers.

Orbitz – The Internet Start-Up Company?

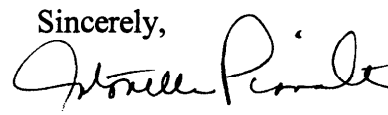
The gross assertion that ‘Orbitz is an Internet start-up company’ is comical. Internet start-ups are defined as fledgling business enterprises; it is impossible to classify Orbitz in this category. Orbitz is the product of \$500 million in funding from the nation’s five largest airlines – American, Continental, Delta, Northwest and United, accounting for 90% of the seats in the domestic air travel business. Orbitz touts access to exclusive and comprehensive travel information. How then, can this business be termed an Internet start-up company? While it is a “new” venture for the airlines, it is definitely not a start-up in the eyes of e-commerce pioneers.

Conclusion

Online travel is an e-commerce success story. New online travel service entrepreneurs, through innovative technology and superior customer service, have brought effective competition for air travel and other travel services to the Internet. As a result, consumers have access to more choices, lower prices, and can comparison-shop for the best deals. Orbitz’s “Internet only” special fares will not be made available to other sellers, and thus this new Web portal will be a giant roadblock on the e-commerce highway. Orbitz’s effort to gain control of online ticket sales has one target in view – the competitive online services industry, which has helped consumers find the best travel deals at the competitive prices.

As reported in *The Forrester Brief*, January 24, 2000, “T2 (Orbitz) is not about giving consumers a one-stop shop that they don’t already have – online travel agencies already aggregate hundreds of suppliers. Instead, it is designed to cut out Travelocity.com and Expedia, which, if left unchecked, could grow large enough to negotiate better fares and commissions with large suppliers on their own...The consumer travel window will slam shut. It’s over – with the entry of this new heavy hitter, there is not more room for new entrants into the consumer-facing online travel space in the United States.” That says it all.

Thank you for your consideration.

Sincerely,

Antonella Pianalto
Executive Director